



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 1, 2006

### **Credit Rating Agency Reform Act of 2006**

*As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs  
on August 2, 2006*

The legislation would require the Securities and Exchange Commission (SEC) to establish a registration process for credit rating agencies (organizations that determine the credit worthiness of securities or money market instruments) that seek to be designated by the SEC as a nationally recognized statistical rating organization (NRSRO). Under current law, there is no formal registration process; SEC staff currently identifies five credit rating agencies as NRSROs.

Under the bill, SEC would impose disclosure and filing requirements on credit rating agencies seeking registration. The SEC would prohibit certain activities of registered credit rating agencies, including issuing or modifying ratings on the condition that the customer purchase other services from the credit rating agency. Registered credit rating agencies would be subject to new rules developed by the SEC designed to protect private information held by the agencies and prevent conflicts of interest. Based on information from the Commission and assuming the availability of appropriated funds, CBO estimates that implementing the registration and enforcement requirements of the bill would cost \$3 million over the 2007-2011 period. Enacting the bill would not affect direct spending or revenues.

The bill contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

The bill would impose a new private-sector mandate as defined in UMRA on credit rating agencies that are currently identified as NRSROs. Under current law, credit rating agencies are identified as NRSROs upon receiving a "no-action" letter from the Securities and Exchange Commission. The bill would define the term "nationally recognized statistical rating organization" and void any "no-action" letters previously received from the SEC. Thus, the bill would require credit rating agencies that currently are identified as NRSROs to register with the SEC and follow certain requirements if they want the NRSRO designation as defined under the bill. According to government sources, only five credit rating agencies are currently identified as NRSROs. Based on information from government sources, CBO estimates that the incremental cost for those agencies to register and follow

any prescribed rules would be small and fall below the annual threshold for private-sector mandates established by UMRA (\$128 million in 2006, adjusted annually for inflation).

On June 29, 2006, CBO transmitted a cost estimate for H.R. 2990, the Credit Rating Agency Duopoly Relief Act of 2006, as ordered reported by the House Committee on Financial Services, on June 14, 2006. Both this bill and H.R. 2990 would require the SEC to establish a registration process for credit rating agencies; accordingly, CBO's cost estimates are the same.

The staff contacts for this cost estimate are Susan Willie (for federal costs) and Paige Piper/Bach (for the impact on the private-sector). This estimate was approved by Paul R. Cullinan, Unit Chief for the Human Resources Cost Estimate Unit, Budget Analysis Division.